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SUBJECT: MADAGASCAR: A HOBSON'S CHOICE ON AGOA ELIGIBILITY

¶1. (SBU) SUMMARY: Madagascar is an AGOA success story almost without parallel, having created a vibrant garment industry employing around 100,000 workers. AGOA eligibility should be used as a carrot for encouraging early elections and a return to constitutional order. During Madagascar's 2009 eligibility review, decision makers should take into account the critical importance of AGOA in the Malagasy economy, and the sharply negative impact on Madagascar's stability and economy -- and U.S. economic interests -- that suspension would have. A business delegation from Madagascar is expected to visit Washington during the week of April 20 to explain the stakes as they see them. End summary.

#### AGOA'S STAR BENEFICIARY

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¶2. (SBU) Madagascar has long been a poster child for the African Growth and Opportunity Act (AGOA). Although the benefits of AGOA envisioned by Congress have bypassed many African nations, Madagascar has seized the opportunities provided by the legislation to develop a vibrant garment sector exporting to the U.S. market. In fact, 2008 USITC data showed that Madagascar ranked second in AGOA apparel shipments by value only after Lesotho, with exports worth USD 279 million. Several large U.S. buyers such as the GAP, Gloria Vanderbilt, and Jordache purchase and/or produce garments in Madagascar for import into the U.S.

#### AGOA PROVIDES JOBS

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¶3. (SBU) The export processing zone (EPZ), which is mainly comprised of garment factories inspired by AGOA, is the most important formal sector employer in Madagascar outside the government. The EPZ accounts for approximately 100,000 jobs, mostly in the capital area of Antananarivo, which are estimated to feed some 500,000 Malagasy. If Madagascar were declared ineligible for AGOA, these tens of thousands of workers that would almost certainly lose their jobs, which would greatly exacerbate the instability of this already volatile city.

#### AGOA - CARROT FOR EARLY ELECTIONS

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¶4. (SBU) AGOA eligibility, up for annual review in the fall, should be used as a powerful "carrot" to encourage the HAT transition government to conduct elections by the end of the year. Unlike other AGOA countries that have been suspended for coups, such as Mauritania, and which export virtually nothing to the U.S. and thus suffered no major economic or social disruptions as a result of the suspension decisions, AGOA suspension would actually have a large, tangible, negative - even catastrophic -- impact on Madagascar's stability.

¶5. (SBU) Embassy strongly endorses the idea of USTR sending a letter as soon as possible to the EPZ association GEFP, in the name of its president Jacky Radivindra, suggesting that early presidential elections, certainly before the end of 2009, would be a welcome and necessary step toward ensuring a favorable decision on Madagascar's AGOA eligibility in the annual review. Embassy cautions that any

earlier review of Madagascar's eligibility would only have a negative impact, without benefit of any "carrot" effect, because under no realistic scenario would there be sufficient time to hold elections before the end of 2009.

#### U.S. ECONOMIC INTEREST - AND TRIP TO WASHINGTON

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¶16. (SBU) In addition to the many U.S. companies that source garments from Madagascar, several U.S. investors have put their money on the ground there, including Jordache, Cottonline, and Winds. Jordache alone has invested USD 60 million in its Malagasy facilities. Meeting recently with the ambassador, the local Jordache representative stated clearly that they would shut their operations, relocate to either Egypt or Bangladesh, and never return to Madagascar if AGOA eligibility were jeopardized. In the same meeting, GEFP Vice President John Hargreaves stated that the GEFP is planning consultations in Washington during the week of April 20 to make sure that relevant USG decision-makers were fully informed of industry interests, concerns, and intentions. He said they plan to call on USTR, State, USDOC, NSC, the Corporate Council on Africa (CCA), and perhaps the Hill. The GEFP may also invite the American Chamber of Commerce in Madagascar to send a representative; the local AmCham has also been very active in raising members' concerns about the AGOA eligibility issue and the feared catastrophic impact of a suspension. Embassy will provide further details on this proposed delegation when available.

#### COMMENT: A SITUATION NEVER CONTEMPLATED

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¶17. (SBU) We understand that AGOA eligibility decisions are of course made taking into account U.S. legal requirements including the existence of the rule of law, democracy, and political pluralism. That said, USG decision-makers should be fully aware of, and also take fully into account, the uniquely important role AGOA plays in the Malagasy fragile economy, and the truly devastating impact on Madagascar's battered stability that suspension would trigger here.

The can be no question that suspension of AGOA would greatly exacerbate an already delicate political and economic situation in a country that is an AGOA showcase by creating huge additional numbers of hungry and unemployed persons. It goes without saying that a considered and deliberate USG decision that resulted in extreme social and economic dislocation here would also have a devastating long-term impact on our bilateral relationship with this country. No amount of public diplomacy would succeed in explaining why our concerns for democracy here outweighed consideration for the well-being of hundreds of thousands of poor Malagasy citizens - and it is unlikely that suspension would enhance the messages we are already sending to the HAT. Our AGOA success story in Madagascar would be transformed overnight into a nightmare never contemplated by those far-sighted visionaries who dreamed up AGOA as a way, primarily, to promote prosperity in Africa. END COMMENT.